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Abolish the Income Tax

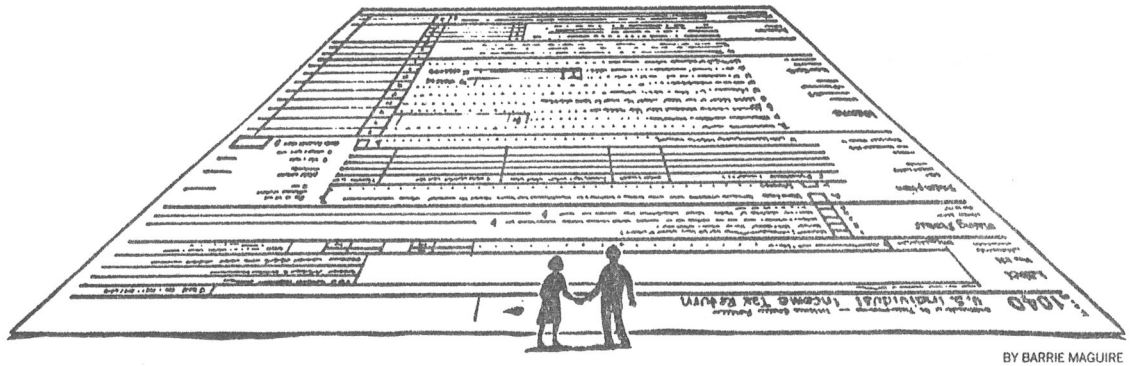
When the Republican revolution resumes this fall, Congress will honor the promises we made to the American people by sending the president a bill that radically alters our nation's failed welfare system, and a budget bill that shrinks the government, reduces the tax burden on working Americans, produces the first balanced budget since 1969 and saves Medicare from its impending bankruptcy. Not a bad beginning for the first Republican Congress in more than a generation.

But these efforts to change fundamentally the federal government's way of spending other people's money remain built upon a faulty, counterproductive, overcomplicated tax system.

The time has come to change more than our spending policies and bad habits. To strengthen our economy as we move into the 21st century, we must also pull the income tax out by its roots and throw it away so it can never grow back. In its place, I favor the creation of a broad-based tax on the purchase of goods and services.

Our current tax collection system is flawed so badly that reforming it (again) won't work. It needs to be done away with entirely.

In addition to its complications, compliance costs and intrusions into people's privacy, the present system of taxing income, investments and savings penalizes the very things society should reward, and the tax-free treatment given to consumption favors activities that aren't as economically beneficial to society.



BY BARRIE MAGUIRE

Our guiding principle as we proceed is to choose a new tax that provides the greatest, most productive boost for the overall economy. Taxes have a pronounced effect on interest rates and on economic activity. The new code must result in lower interest rates so new, high-paying jobs are created and so people can save more of the money they make, creating a better, more secure life for themselves and their children.

When we throw out the old and replace it with the new, our vision will reflect five guiding lights:

■ **Simplicity and Freedom From the IRS:** The new code must be simple enough that the Internal Revenue Service can be eliminated entirely from the lives of individual Americans. By replacing income taxes with a tax on the purchase of goods and services, individual citizens would no longer be required to keep and collect records subject to intrusive IRS audits. A tax collection agency would still be necessary, but its mission and power would not resemble the current IRS. In addition, the lawyers and accountants who legally advise clients how to avoid paying taxes could be put to more productive use if the code wasn't rifled with loopholes and exceptions that beg clever evasion.

■ **Savings Friendly:** Economists from all ideological perspectives agree we need to raise the savings rate in order to create jobs and lower interest rates. The current code takes money away from people who save by taxing interest earned and money invested. The tax code should encourage and reward savers; not penalize them.

■ **The Underground Economy:** Every year, honest taxpayers pay on average 15 percent higher taxes than they otherwise would to make up for the more than $100 billion that goes uncollected in the underground economy. Under a tax on the purchase of goods and services, every time a drug dealer bought a car, every time a house painter bought a can of paint, they would pay their share in taxes. Only a tax on the purchase of goods and services can effectively capture this revenue that is now forgone. The record shows that the income tax too easily lends itself to criminal evasion.

■ **International Competitiveness:** The current income tax puts American products and workers at a disadvantage in the world marketplace. When American-made products are sold overseas, they sell for a higher price to offset the cost of the income tax that is included in the price of the product. A consumption-type tax could be removed from the price of our export products, making them more competitive overseas, creating export jobs at home. In addition, foreign products would be subject to a U.S. consumption tax in a GATT-legal manner, giving American manufacturers a fair advantage in the marketplace. Our competitors are already doing this do us, we ought to do it as well.

■ **Fairness:** The new code must be fair and reflect the ability of wealthier Americans to pay their share, and it must not create any undue burdens on low-income citizens. Under a tax on the purchase of goods and services, the more someone spends, the more he gets taxed. The person who pays a 10 percent tax on a Jaguar, for example, would have a higher tax bill than someone who pays a 10 percent tax on a Chevrolet. People who buy yachts would pay higher taxes than those who don't. Equally important, the new code must recognize and account for the needs of low-income Americans who consume every penny of their income simply to make ends meet. Also, because homes are not consumed items, their purchase price would not be subject to taxation.

Opposition to taxes of all types has been a time-honored tradition since the beginning of our republic. While no system of taking money from others will ever be perfect, if the federal government started from a blank slate today, an income tax is the last tax we would create. For the good of our country, the days of the income tax need to be numbered.

The writer, a Republican representative from Texas, is chairman of the House Ways and Means Committee.